

South Asia Initiative

Policy Analysis and Advisory Network for South Asia (PAANSA)

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Members of PAANSA
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I. Backdrop and Introduction

On January 17, 2002, the network members of PAANSA met for the first time in New Delhi. The International Food Policy Research Institute (IFPRI) and the Indian Council for Research on International Economic Relations (ICRIER), New Delhi, organized the meeting jointly. The major objectives of this meeting were:

- To discuss emerging issues facing India's food, agriculture, and natural resource sectors;
- To take stock of the existing knowledge on issues related to food security, market reforms, and trade liberalization in the Indian context; and
- To set priorities for future research by identifying key research topics that will provide information for making informed policy decisions.

Opening Session

Isher Judge-Alhuwalia, the executive director of ICRIER, New Delhi, opened the India meeting. In her opening address, Dr. Alhuwalia emphasized the importance of South Asian development issues in the global context. She underlined the benefits of South Asian countries collaborating through the South Asian Initiative. She also introduced the South Asia Network of Economic Research Institutes (SANEI). She said that policy dialogue among South Asian countries, policy researchers, and policymakers is a step forward in addressing the food and agriculture problems facing South Asia. Furthermore, she emphasized the importance of macroeconomic and trade policies in enabling better agricultural growth and the importance of information in negotiating agriculture under the World Trade Organization (WTO).

Ashok Gulati, Director of the Markets and Structural Studies Division at IFPRI, presented an overview of the objectives and expected outcomes of the South Asia Initiative of which PAANSA is a component. He also provided an introduction to the research and outreach divisions as well as the communications division at IFPRI. Moreover, he elaborated on the issues related to market reforms and their importance to Indian agricultural development. He emphasized that poverty is a daunting problem in South Asia, a region that holds the highest

number of poor people in the world (44 percent). A major challenge for effectively designing and implementing poverty reduction strategies by policymakers and policy researchers in South Asia is the lack of research-based information. To convey IFPRI expertise in South Asia, Dr. Gulati introduced various past and present projects that IFPRI has/had been conducting in collaboration with South Asian institutions, particularly Indian institutions, in the region. He also elaborated on the three major layers of the South Asian Initiative.

- The first layer is to create synergy among policymakers in South Asia in order to make more rational and effective decisions pertaining to issues of high importance, such as food security and poverty alleviation.
- The second layer is to collaborate with local institutions and researchers to conduct quality research on applied policy issues for poverty alleviation.
- The third layer is to build capacity of local institutions to perform analytical studies even after collaborative research projects with IFPRI have expired.

Three activities under the South Asia Initiative will enable South Asian policymakers to handle emerging policy issues and to address selected policy issues related to economic reforms and agricultural development. These activities are:

- To develop a network of policy analysts, policymakers, and policy advisors through the development of the Policy Analysis and Advisory Network for South Asia (PAANSA). This network will provide an avenue for effective policy dialogue to take place in the South Asia region.
- To undertake high quality-applied research on critical policy issues identified by the policy researchers and policymakers in the South Asia region. Information on the impact of various policy alternatives will help the decision makers to design and implement appropriate policies in the region.

- To conduct collaborative research, training, and exchange programs with local institutions, NGOs, and the private sector, which will help develop local capacity in policy analysis and research

Furthermore, Dr. Gulati introduced several collaborative research projects that have already begun in South Asia. One collaborative study between IFPRI and several Indian institutions is looking at the development of the dairy and poultry industry and their contribution to poverty reduction. Another study looks at crop diversification in the context of South Asia and how diversifying agricultural enterprises towards high value crops and livestock enterprises contributes to increased food security and reduced poverty. Using foresight, Dr. Gulati mentioned that water will be major constraint in the South Asia region in the next 20 years, and therefore, plans to collaborate with the International Water Management Institute on water issues are in the making.

Equally important to current research, Dr. Gulati expressed the need for bringing South Asia policymakers and policy advisors together to discuss regional priorities and to share experiences among these countries. In order to achieve this objective, IFPRI will collaborate with ICRIER and ICAR, New Delhi, to jointly organize a workshop on “Trade, Technology, and Food Security in South Asia”. The workshop will be held in the India Habitat Centre (IHC) in New Delhi on April 24-25, 2002.

At this time, moderate funding for undertaking these activities has been obtained. However, in order to undertake these activities a Memorandum of Understanding between the South Asian institutions and IFPRI will need to be developed and signed. IFPRI already has a Memorandum of Understanding with the Indian Council for Agricultural Research (ICAR), which has identified various training and research activities under this initiative.

Dr. Gulati expressed his appreciation to ICRIER for all the support it has provided in organizing this workshop. Dr. Gulati ended his introductory presentation by inviting the members of the Indian group of PAANSA, who were present at the meeting to share their knowledge, advice, and guidance for identifying priority policy research issues for India.

II. Priority Issues facing Indian Agriculture: Views of PAANSA Participants

Mr. Sompal, member Planning Commission and former Minister of State for Agriculture, initiated discussion on the priority issues that the Indian component of the South Asian Initiative should research. He emphasized that achieving food security for all Indians is a priority issue for the Indian government. While the distribution of food to the vulnerable groups is addressed through the existing public distribution system, the availability of food through the public outlets even at the subsidized prices is not sufficient to achieve food security because the purchasing power of the poor is inadequate for meeting their food demand. Mr. Sompal emphasized the need for increasing the income of the poor through various agricultural and non-agricultural employment opportunities. Given the limited scope for expanding the existing land resources for agricultural production, Mr. Sompal suggested that policymakers look into rehabilitation of degraded common land and wasteland, which is owned by the states but underutilized for producing marketable commodities. Recovery of about 80 million hectares of land, which are currently degraded and belong to common property pools, can increase the availability of land for the landless households in rural areas. Using such lands for producing tree crops, which could be marketed locally, will reduce poverty. Mr. Sompal provided examples of such projects, which have encouraged tree production in rural areas and resulted in lower poverty within a span of 6-7 years for these areas.

The second major issue that faces Indian agriculture is low productivity of agricultural land. Agricultural productivity in rainfed areas continues to be low partly due to poor development of irrigation in these regions. Developing appropriate irrigation methods and tapping into water resources can achieve a new round of agricultural development in these areas. Even in high potential areas, 9 of 16 micronutrients have been depleted. Thus soil degradation and low soil quality have contributed to declining productivity growth in high potential areas. Furthermore, three major crops – rice, wheat, and sugar- dominate high potential areas. This concentrated focus limits diversification to other high value potential crops. This limited focus is largely due to poor pricing policies, which encourage cereal and sugar production. The third constraint for increasing agricultural income through diversification is poor marketing infrastructure for

processing agricultural commodities, particularly fruits and vegetables and transporting them to market centers.

Quantitative restrictions and bureaucratic difficulties in licensing remain major obstacles for developing commercialized agriculture. Thus, the fourth area of concern is land ownership policies and high transactions costs that are involved in selling and buying land. Therefore, there is a need to revisit land ownership policies to enable the reorganization of existing lands through leasing in and leasing out agreements in the agricultural sector. Experiments in Punjab and Haryana have shown that relaxing land ownership laws and reducing transaction costs, could consolidate land under more effective management.

Dr. C. H. Hunumantha Rao, Chairman, Center for economic and Social Studies (CESS), raised several key policy research issues that should be addressed by the research component of the South Asia Initiative. Dr. Rao reiterated that while India has achieved its supply side objectives in food production, it has not achieved similar success on the demand side. The access to food is denied to approximately 30 percent of households in the lower-income brackets; therefore, efforts should be made to increase the purchasing power of low-income households. For example, agroprocessing could provide potential for increasing employment opportunities in rural areas. He also emphasized the importance of mapping the comparative advantage of various crops and agricultural products based on cost of production data, which can become the basis for negotiations during the WTO trade negotiations. He also called for a policy framework that is geared to address the complex issues facing the food grain sectors including technology and pricing policies.

Professor G. S. Bhalla, former member Planning Commission, reminded us of the grave crisis facing Indian agriculture in terms of poor technology developments. As an example, he pointed out the inability to keep up with the advancements taking place in agricultural biotechnology applications. A major issue for technology development is increasing the investment for agricultural research and technology development in the Indian agricultural research system. More investments are needed for research on diversification of agricultural commodities and the implications of intellectual property rights and agreements related to biotechnology transfers,

such as TRIPS. Currently, a large share of resources spent on agricultural research is given as salaries with very limited funds for conducting research. India's agricultural system is also facing a crisis in terms of low investment in market and institutional infrastructure. Sufficient infrastructure translates agricultural production into higher income of farmers.

Professor Vijay Vyas, member of the Prime Minister's Economic Advisory Council, emphasized the need for better integration of agriculture with the rest of the economy. A major research theme that should be addressed by the South Asia Initiative is the need for investment in supporting systems for agricultural development. For example, a major crisis is looming in the rural financial sector. Then, there is a need to revisit the rural financial institutions such as credit cooperatives, non-banking financial institutions, and other rural financial intermediaries in order to enable rural households to obtain appropriate inputs for their production enterprises. Furthermore, the variability of yields of agricultural commodities due to erratic rainfall and price fluctuations need to be addressed through appropriate crop insurance mechanisms. Alternative approaches to crop insurance should be identified and studied for feasibility. There is also a need for arriving at an appropriate activity mix. For example, knowing where and how to diversify agricultural commodities so it is profitable and then linking these areas to international markets for exporting the outputs. Finally, there is ample evidence that the existing food security complex is inefficient and involves an enormous amount of resources in the form of subsidies. Alternative ways to bring efficiency in this food security complex, ranging from procurement, stocking, distribution, and increase access of food to vulnerable groups should be identified. It is also important to study the environment and ecological linkages of food production systems so that such systems are sustainable in the long run.

R. C. A. Jain, Additional Secretary to the Ministry of Agriculture, informed the meeting participants that the key challenge for the Ministry of Agriculture is to translate the surplus production of food into increased incomes for the farmers through appropriate market and price reforms. The Government of India has instituted the Committee on Market Reforms and is currently looking at the process of operationalizing the recommendations of the committee known as Guru Shankar Committee. The major recommendations of the committee involve reforming the marketing institutions that will facilitate increases in farmer incomes through the

reduction of transaction costs involved in marketing their agricultural commodities. Another major challenge for the Government of India is to manage the risk - weather and price uncertainties- faced by farmers. The Government of India has recently introduced an insurance system that protects farmers from both yield and price risks. The insurance scheme has so far covered 10 percent of the farmers and 13 million hectares of cropland. While there are several difficulties in implementing the crop insurance system there is scope for improvement in future seasons. The Government of India believes that introducing the crop insurance could be an alternative to the minimum support price system of procurement in protecting farmers' income. Another major issue facing the Ministry of Agriculture is developing appropriate strategies for negotiating Indian agriculture within the WTO negotiations. Mr. Jain suggested that as part of the research studies undertaken by the South Asia Initiative, information should be gathered on comparative costs of production of various crops among the countries of the world. He also requested the help of the South Asia Initiative in articulating the arguments under the WTO on issues related to Sanitary and Phyto-sanitary Measures.

Professor G. K. Chadha, Chairman, Commission for Agricultural Costs and Prices, called for better negotiations and dialogue between state and central governments in terms of fixing prices and providing appropriate incentives for farmers. The price of oil seeds and pulses is the prime mover in increasing their production. However, the cost of oil seed production is so low in other competing countries that a major technological breakthrough is needed to make a dent in the comparative advantage of oil seeds in India. He also joined others in emphasizing that the low purchasing power of poor households has resulted in poor offtake of food grains from the distribution channels. The public distribution system has not served its purpose in reaching the poor, thus it is important to look at the price divergence between the recommendation made by the Agricultural Price Commission and the government.

Professor Kirit Parikh, member of the Prime Minister's Economic Advisory Council, addressed issues related to price volatility and price stabilization in Indian agriculture. He also emphasized the need to address issues about consolidation of land and freedom for restructuring existing land use patterns. There is an immediate need to develop institutions that will facilitate land

consolidation that will provide opportunities for investment in land development and adoption of new technologies that facilitate agricultural diversification.

Following individual presentations, the participants briefly discussed the emerging issues for the Indian food and agricultural sectors that need additional research. They could be summarized as follows:

1. The food security complex – excess supply of and poor access to food. Opportunities for increasing food security by improving economic access of food to the poorest groups. Alternative ways for protecting the producers and consumers other than the minimum support price and public distribution system.
2. Agricultural diversification as a source of new economic growth in the food and agricultural sectors. Understanding the institutional bottlenecks.
3. Reforming the agricultural input and output markets with particular emphasis on pricing policies and institutional reforms.
4. Generating information for better negotiating under WTO with particular reference to cost of production and comparative advantage of various enterprises.
5. Improved management of water resources in the context of declining water tables and expanding the benefits of irrigation to the rainfed areas.
6. Policies and institutions that reduce transaction costs in land markets. Land market reforms and learning from the lessons and programs from Punjab and Haryana on land consolidation.
7. Investment in agricultural research with emphasis of tapping into recent developments in biotechnology and better understanding of intellectual property rights in the transfer of biotechnology.
8. Protecting the farmers from world price volatility and yield uncertainties in both the local and international context. Identifying trigger mechanism for designing price and tariff policies and designing and implementing crop insurance schemes.

Afternoon Session

Drawn from the morning session, the afternoon session focused on three major themes that will further elaborate the issues, constraints, and challenges facing India's agricultural sector. The three themes presented and discussed during the afternoon session were:

- Policy research priorities for Indian agriculture (presented by Dr. Mruthyunjaya, Director, National Center for Agricultural Economics and Policy (NCAP), New Delhi);
- Understanding the complexity of food security system in India (Presented by Dr. Mahendra Dev, Director, Center for Economic and Social Studies (CESS), Hyderabad); and
- An analysis of price volatility in Indian agriculture and coping strategies under Trade Liberalization (presented by Dr. P. V. Srinivasan, Professor, Indira Gandhi Institute for Development Research (IGIDR), Mumbai).

III. Agriculture Policy Research Priorities: Views of NCAP

Dr. Mruthyunjaya, Director, NCAP, first introduced the research programs of the National Centre for Agricultural Policy (NCAP), which are guided by a research advisory committee. The major research themes of NCAP include technology policy, markets and trade issues, sustainable agriculture systems, institutional reforms, and growth and adjustment. Then he presented the existing policy research priorities for Indian agriculture. In order to design decision support systems that will guide resource allocation for national agricultural research, a well-defined technology policy is needed. Furthermore, the impact of agricultural research investment on the productivity and income of farmers needs to be understood. Moreover, institutions and institutional reforms are needed for increasing the impact of agricultural research investments. Agricultural research investments should also be directed towards the increasing need for diversifying Indian agriculture into crop, livestock, and fisheries.

Given the increased concerns about natural resource degradation in agricultural production systems, ways and means should be identified for increasing the sustainability of production systems in India. The first step is to map sustainability indicators for setting priorities for research and development of targeted technologies. Issues related to markets and trade and internal and external reforms that facilitate equity are a major concern for policymakers. The implications of WTO negotiations on Indian agriculture and issues related to intellectual property rights are also important. In order to understand the future research priorities it is essential to project the future supply and demand for food and agricultural commodities in the Indian context.

Several institutional changes are required for initiating another round of agricultural development in India. For example, public-private partnership in research, extension, and agroprocessing needs to be explored. Institutional arrangements between public and private institutions that are developing new seed varieties and distributing them to farmers need to be identified. Although green revolution technologies have helped to increase income and reduce poverty in high potential areas, the extent of poverty continues to be widespread in marginal and less-favored regions. Therefore, growth strategies need to be identified for marginal and fragile environments, which will require identification of new sources of growth in these areas. Another major concern for the agricultural sector is the management of surplus food and its impact on dampening agricultural prices.

IV. Collaborative Projects with IFPRI: Ongoing and Proposed

IV.1 Agricultural Diversification in South Asia

Dr. Mruthyunjaya elaborated on the current project being implemented by ICAR and IFPRI on agricultural diversification in South Asia. He mentioned that the project looks at constraints and opportunities for agricultural diversification in South Asian countries. On the demand side, the project intends to understand the impact of growing urbanization, per capita income, and diversified food needs of the demand for crop and livestock products by the South Asian population. This understanding will provide farmers with information regarding what crops to diversify beyond the existing largely cereal-based production systems. On the supply side, the

project will look at the falling share of agriculture in GDP, the declining size of landholdings, the rising number of smallholder farmers, and the declining productivity of water and other scarce resources in terms of meeting the increased demand for agricultural diversification. The unemployment and underemployment in rural areas, undernourishment and poverty of rural households, new trade regime including the outcomes of the WTO negotiations, and degradation of natural resources present major challenges for future opportunities for agricultural diversification. Yet, diversification of agriculture from cereal based production systems to high value crops has the potential to increase rural household income, generate employment opportunities, alleviate poverty and malnutrition, and provide an opportunity to effectively participate in the new trade regime.

The current project on agricultural diversification in South Asia will assess the degree, nature, and speed of agricultural diversification in South Asia. It will identify the constraints towards further diversification as well as farm-firm linkages. By assessing the impact of diversification on income, employment, and status of natural resources, the project will develop strategies for greater participation of smallholder farmers to augment their income through agricultural diversification. At the macro level, the project will cover seven South Asian countries – Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. At the meso level, India will be used as a case study to understand the spatial patterns of agricultural diversification in different Indian states. At the micro level, two major agroecological zones will be studied to understand the differential impact of agricultural diversification on rural welfare. The irrigated and favorable environment, which has been a major source of growth through green revolution technologies, will be studied for its further potential in diversification. Furthermore, the rainfed and marginal environment, where a majority of the poor and malnourished live, will be studied for its potential to reduce poverty in these areas. The initial efforts and results from the research project indicate that the nature of diversification in the crop sector has varied widely among the South Asian countries. At the country level, diversification has occurred in all three sectors - crop, livestock, and fisheries. Preliminary results from the study indicate that market access has been major driver of diversification in India. On the supply side, infrastructure for transporting agricultural commodities, and favorable land tenure systems, have helped in expanding agricultural diversification.

In the context of India, there have been indications that several emerging institutions have facilitated the expansion of agricultural diversification. In the case of fruits and vegetables, institutions and corporations such as SAFAL, Hindustan Lever, and McDonald's of India have shown promise for adopting similar models in various parts of the country. In the dairy sector, the successful model of dairy cooperatives has been shown to benefit small and marginal farmers in increasing their income through livestock production and marketing of livestock products. In the poultry sector, while the operations tend to be larger and more organized through the private sector, there is a possibility to apply the dairy cooperative approach to the poultry sector in India. The private sector model has largely driven the fishery sector and its diversification.

The benefits of agricultural diversification will not be fully realized unless institutions are developed to involve small farmers in diversification of their agricultural products and agroprocessing of their products, which will augment their income, generating employment, and ensuring food security. Furthermore, careful attention needs to be paid to develop strategies to accelerate agricultural diversification in marginal environments in order to generate equity in reaching the disadvantaged and less favorable areas. Dr. Mruthyunjaya also reported that an outreach activity of the project would be a national workshop on "Agricultural Diversification in India." A policy dialogue among policymakers and policy researchers is also planned to develop strategies for accelerating and sustaining agricultural diversification to help farmers in marginal environments. The project will result in a major publication on agricultural diversification in South Asia. In the discussion that followed Dr. Mruthyunjaya's presentation, there was a consensus towards developing appropriate marketing and institutional arrangements for farmers to transport produce from their farms to their internal and external markets, which is a major constraint for agricultural diversification. Emphasis was also placed on paying adequate attention to the potential of marginal and fragile lands in benefiting from agricultural diversification. The participants of the workshop endorsed the research project as a key source of information by the Ministry of Agriculture, India. It was also agreed that the benefits of the research will go beyond India to other South Asian countries that are also in the process of expanding and diversifying their agricultural production base.

IV.2 Food Security Complex in India: Emerging Issues

Dr. Mahendra Dev, Director, CESS, presented on the complexity of food security in India. India is in a paradoxical situation in terms of food production and food consumption. India has achieved food self-sufficiency in food production for the past 20 years with about 60 million tons of food stocks in 2001. Yet, about 30% of the population do not consume adequate food and lack the purchasing power to access adequate food. In order to address the paradoxical situation, Dr. Dev presented an overview of the reforms that have taken place in the Indian food security scene including procurement, stocking, and distribution. Food availability at the national, regional, and community levels is not a serious concern; however, a major concern is the economic access of food by the households in both rural and urban areas.

Issues Under Procurement, Buffer Stock, and Distribution: The main objective of the India food price policy is to ensure remunerative prices for farmers and safeguard the interests of consumers. The food price policies of the Government of India have in the past helped both the producers and the consumers. However, in the context of the growing food stock and the need for managing the surplus food produced in the country, it is clear that the past policies have not been effective in reaching the poor, and its public distribution system has been expensive. Several problems confront the decision makers in the food and agricultural sector. The first problem is that procurement prices for agricultural commodities have been increasing continuously. The increase in the procurement and issue prices and the obligation of the government to purchase all food grains offered by farmers appear to be the major determinants of the current high food stock levels. Despite the slow growth in the production of food grains, the accumulation of high food stocks has occurred. Consumers are also changing their consumption patterns toward non-cereal food commodities as their income increases. On the other hand, the bottom 30 percent of households on the income scale have faced challenges in meeting food demand. The Food Corporation of India (FCI) has also been largely responsible for this food surplus. Its inefficient practices of food procurement, storage, and distribution have led to an increase in the economic cost and the issue price of food. While producers and consumers have been subsidized, the share of consumer subsidies has been declining while the share of producer subsidies has been increasing. Furthermore, the poor regions of the country have been left out by the public distribution system due to their remoteness, and there has been

significant diversion of commodities to non-targeted population. Although the target Public Distribution System (PDS) has undergone changes over time, several problems still exist that require further reform.

The Commission on Agricultural Costs and Prices has suggested four policy choices. First, the Government of India can either reduce or freeze the minimum support price for a few years in order to discourage cereal production. Second, it can improve the storage capacity of the Food Corporation of India and procure more grains that are available from the farmers. Third, it can design and implement production oriented policies that will discourage production of rice and wheat and will encourage production of coarse cereals, pulses, oil seeds, and other high value crops. Fourth, it can design ways and means to dispose of the existing high levels of stock by appropriate food pricing policies and intervention programs such as the Food for Work program.

The High Level Committee on Long Term Grain Policy has also developed some interim recommendations. It believes that the stock levels are a temporary phenomenon and the high levels of support and issue prices are responsible for such a high stock. The committee also concludes that targeted PDS is not a solution since it excludes a large section of the poor households. It recommends that the existing minimum support price operations be extended to the poorer regions such as Assam, Bihar, Orissa, and Uttar Pradesh. The High Level Committee also recommends developing programs such as Food for Work to increase the effective demand and in decentralizing the procurement and distribution system of food grains.

The past food price policies have also adversely affected the development of private internal market and private food trade, and the PDS has become expensive and unsustainable. Therefore, the minimum support price scheme has to be modified to change the cropping pattern. The movement away from cereal production to high value crops and pulses and oil seeds will require consideration of both price and non-price factors. There is also a need for delinking the minimum support price and the procurement price offered to the farmers. Although a minimum support price can be announced, procurement needs to be done at the existing market prices. Ideally, the difference between the market price and the minimum support price can be

reimbursed in cash to farmers. Furthermore, implementation of an effective crop insurance scheme will enable provision of better support for the farmers.

In terms of trade liberalization, WTO, and food security, Indian decisionmakers have three main fears to confront. First, the opening of external trade in food commodities could result in a deluge of agricultural commodity imports, which may affect domestic production and incomes of farmers. A clear example is the opening up of borders for edible oil import, which has resulted in a dramatic reduction in oil seeds production in India. Second, the opening up of domestic market will expose the local markets to international prices and result in high volatility of local prices. Third, subsidy reductions to producers and consumers as part of WTO negotiations may threaten the food security of poor consumers. However, existing evidence indicates that this will not be a major threat for India due to trade liberalization of its agricultural sector. Yet, the genuine concerns related to WTO and trade liberalization remains. Moreover, countries in South Asia are increasingly following food self-sufficiency policies due to political reasons. In the absence of such policies, safety net measures may be required. However, past experiences show that such measures have not been effective.

The Government of India has been slow in reacting to the world price changes; but it has modified its prices accordingly. However, over the last six years developed countries have not reduced their food subsidies and they are using non-tariff barriers on an increasing basis such as Sanitary and phytosanitary measures. Sanitary and phytosanitary measures are being used by developed countries as protective measures, which provide an unequal field for small farmers in developing countries. Another factor that has influenced the food security level of the poor in India, is the increasing role of private sector in the seed industry. The collaboration with multinational seed companies has increased the price of seeds and therefore, the availability of high quality seeds to small-scale farmers is difficult.

Dr. Dev proposed a collaborative study between IFPRI and CESS to gain a better understanding of the complexity of food security in India, which will then allow the recommendation of appropriate policy measures for improving food security of the poor. The major objective of such a study would be to look at the food security issues in the wake of food surpluses, trade, and

market liberalization in India. The study would focus on a few but selected emerging issues for intensive analysis. The results of the study would help in formulating new food security policies for India that would be more cost effective and in-line with the globalization of Indian agriculture. The study will take into account the problem of excess food stocks, crop and agricultural diversification, and its potential for employment generation and appropriate external and domestic trade liberalization policies.

In the discussion that followed this presentation, several participants commented that Dr. Dev's presentation was comprehensive and a good summary of the existing food security problem in India. The discussion session focused on what India should during the WTO negotiations. It was suggested that India should stress the implementation of the Uruguay Round Agreements, which state that developed countries need to reduce their subsidies and other distortions. Also, India should aggressively push for removal of non-tariff barriers by developed countries. However, special help may be needed on technical matters related to sanitary and phytosanitary issues. India should advocate for a maximum tariff binding of 40-50 percent on all agricultural commodities by any country. It may also be useful for India to join hands with other Cairn group.

The participants also discussed the possibility of making the WTO negotiations viable for Indian agricultural sector. To become viable, it is important that Indian agriculture reduces its cost of production in order to be competitive in the world agricultural markets. Reducing the cost of production requires cost-reducing innovations and technologies, which will require better investment in agricultural research. Moreover, appropriate domestic agriculture policies need to be designed and implemented in a timely manner, which may overcome the negative effects of the WTO negotiations. There is also a need for extreme vigilance in order to make timely measures within the existing tariff bindings. Raising the productivity of Indian agriculture by stepping up public investment for agricultural research, accelerating the evolution and adoption of cost reducing technologies, and removing restrictions on trade, marketing, processing within the country will go a long way in making Indian agriculture a viable industry. Finally, the workshop participants emphasized the need for increasing the economic access of food to poor households

by generating employment opportunities in both rural and urban areas. The role of rural nonfarm employment in generating additional opportunities for the rural poor cannot be overemphasized.

IV.3 Trade Liberalization, Price Volatility and Coping Strategies

The third presentation, presented by Professor P. V. Srinivasan from the Indira Gandhi Institute of Development Research, Mumbai, focused on market reforms and strategies for coping with price volatility in an open economy environment with particular reference to the edible oils in India. He provided the motivation for addressing price volatility in the context of agricultural trade liberalization by emphasizing that the existing mechanisms for price stabilization and farmer price support may become less effective under the liberalized trade regime. Therefore, there is a need to explore alternative mechanisms of price stabilization and examine their effectiveness in terms of meeting the price stabilization and price support objectives. A major issue in this context is to identify policies and programs that would enable a smooth transition from a closed economy regime to an open trade regime with the least adjustment costs.

The case study on edible oils is appropriate for five reasons. First, oil seeds production and the production of edible oils have high growth potential in marginal and less favored areas. Second, oil seeds are a source of agricultural diversification. Third, oil seeds are predominantly grown in rainfed regions, and hence, likely to have a favorable impact on farmer incomes in poor regions. Fourth, production of oil seeds may provide balanced agricultural growth in the country. Fifth, recent studies on household budget shares indicate a rising share in edible oils in food consumption, which indicates increased future demand for edible oils.

Prof. Srinivasan also provided an overview of the existing policy background in the oil seed sector. He highlighted various policy measures that are in place in order to protect consumers, farmers, and crushing and processing units. The Government of India has encouraged domestic production of oil seeds through various programs and policies in order to meet the increasing demand and by supporting the edible oil industry through price and technology policies. Although the minimum support price for oil seeds have been growing in the last 5-6 years and the oil seed industry has achieved near self sufficiency in the early 1990s, the output of oil seeds has stagnated in recent years. Due to this stagnation, the demand-supply gap has widened.

Furthermore, the prices of oil seeds and edible oil have fallen due to recent trade liberalization policies. Lastly, inefficiencies in crushing and processing of oil seeds due to lack of scale economies of scale have contributed to the high cost of locally produced oil seeds and edible oil.

There are several issues confronting the edible oil sector of India. The immediate concern is preparing the domestic oil seeds/edible oil sector to function viably in an open economy and cope with the volatile world prices. The target price for price stabilization of various oil seed commodities needs to be determined in the context of balancing the interests of consumers, producers, and the oil seed industry. Identifying alternative instruments that are available for price stabilization is important in the context of WTO negotiations. It is also important to understand the cost of various alternative instruments and the institutional framework required for implementing those instruments. In order to address these issues Professor Srinivasan proposed a joint IFPRI-IGIDR collaborative study. The study would explore welfare implications of alternative mechanisms used for stabilizing the prices of oil seeds and edible oils. It would attempt to understand mechanisms for balancing the diverse interests of different agents operating in the industry, namely the producers, consumers, and agroprocessors. For example, the high input duty on crude oil is of interest to farmers and crushers, but not in the interest of the agroprocessing units. On the other hand, the processing units would welcome high duty on refined oils but not the consumers. The proposed study would examine the price volatility of edible oils and oil seeds in the domestic and world markets. It will review the risk management strategies adopted by farmer, crushers, processors, and traders. The proposed study would construct a economic model of edible oil seeds specifying the demand functions for edible oils and derived demand for oil seeds and supply functions for oil seeds. The proposed study will also specify alternative policy scenarios and conduct simulation exercises to obtain the welfare impact under each of the scenarios.

The discussions that followed the presentation of Professor Srinivasan involved understanding the impact of price variability and price volatility of key food and agricultural commodities on food security. The participants also expressed that there is a need for establishing a trigger mechanism to respond to international price fluctuations. It is also important to identify the policy responses to the price signals in the world price markets and understand the cost of the

delayed government's response. Major issues during the discussion revolved around getting Indian agriculture more organized to face the world markets both in terms of flexible pricing policies as well as investments in technologies that will reduce the cost of production in the long run. Furthermore, efforts should be made to establish a low cost and efficient certification process for export commodities in order to meet the standards of international markets. The participants welcomed the study proposed by Professor Srinivasan as an important step towards understanding and addressing the problems of price volatility that comes along with liberalized trade environment.

Closing Session

During the closing session Dr. Ashok Gulati, thanked the participants for identifying the major issues that are confronting the food and agricultural sectors in India. He continued by informing the participants that the issues that have been raised during the one-day workshop will be followed up in terms of developing research projects in collaboration with Indian institutions. A follow-up meeting with policymakers and policy advisors in April 2002 will bring the Indian issues into the South Asian context. In closing the meeting, Dr. Isher Judge Alhuwalia thanked the participants for their contributions to the workshop and hoped that the researchers would continue to work with policymakers in providing them with adequate information to help implement appropriate policies towards revitalizing the food and agriculture sector in India.

Dr. Ashok Gulati thanked ICRIER for organizing the workshop and providing an excellent facility for bringing together a key group of policymakers and policy researchers from various parts of India.

The participants of the New Delhi workshop were enthusiastic about the South Asia Initiative and commended IFPRI and ICRIER for organizing the meeting and bringing the key policy researchers and policymakers from various Indian institutions together for policy dialogue.

Annex 1.

South Asia Initiative

Policy Analysis and Advisory Network for
South Asia (PAANSA)

First Consultative Meeting of the Indian
Members of PAANSA

Agenda

10:00 am	Welcome by Isher Judge Alhuwalia, Executive Director, ICRIER
10:15 – 10:45	Introductory Presentation IFPRI, South Asia Initiative and PAANSA by Ashok Gulati, Director, Markets and Structural Studies Division, IFPRI
10:45 – 12:30	Individual Presentation by: Mr. Sompal Dr. C.H. Hanumantha Rao Professor G.S. Bhalla Professor Vijay Vyas Mr. R.C.A. Jain Professor G.K. Chadha Professor Kirit Parikh
12:30 – 1:30	Lunch
1:30 – 4:30	Presentation and Discussion on three Priorities Issues <ul style="list-style-type: none">▪ Policy research priorities for Indian agriculture (presented by Dr. Mruthyunjaya, Director, National Center for Agricultural Economics and Policy (NCAP), New Delhi);▪ Understanding the complexity of food security system in India (Presented by Dr. Mahendra Dev, Director, Center for Economic and Social Studies (CESS), Hyderabad); and▪ An analysis of price volatility in Indian agriculture and coping strategies under Trade Liberalization (presented by Dr. P. V. Srinivasan, Professor, Indira Gandhi Institute for Development Research (IGIDR), Mumbai).
4:30 – 5:30	Concluding Session

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